

Internal Revenue Service

Department of the Treasury

District
Director

Date: SEP 13 1993

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under both section 501(c)(6) and 501(c)(7) of the Internal Revenue Code.

The information submitted indicates that you were organized on [REDACTED] in the State of [REDACTED]. Your stated purposes are to promote a spirit of friendly cooperation and to encourage networking in the [REDACTED] business community among the manufacturers, wholesalers, retailers, agricultural and professionals of the City and County by holding and conducting social gatherings and sponsoring special events.

Your bylaws, which had the same purposes were amended on [REDACTED] to state that your purpose is to make the general public aware of businesses by holding and conducting social gatherings and sponsoring special events.

Both the original and amended Bylaws refer to Sponsors and the fact that Sponsors sign a TRADE CLUB Sponsor Form and pay an annual fee. Also, both require that Directors shall obtain a minimum of three (3) trade club Sponsors in addition to his/her own. Both state that admission to TRADE CLUB Nights or social gathering shall be by valid ticket only.

You originally applied for exemption under section 501(c)(6), and at that time you showed the same purposes as in your articles and bylaws and indicated that you would conduct three Trade Club Nights annually. At these nights, businesses and professionals promote their products and/or services through personal contact and showing or telling about their products/services. You indicate that members pay an annual sponsorship fee for this.

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You indicate that the organization is supported through the sale of annual sponsorships, and this is reflected in your financial data. You further state that you are considering a Trade Show in the future where sponsors would exhibit their products or promote their services, again with the organization charging a fee to defray the expenses of booths and facility charges.

When you were advised that it did not appear that you qualified for exemption under section 501(c)(6) of the Code, since it appeared that your sole activity was three annual TRADE CLUB Shows, instead of supplying the requested additional information, you applied for exemption under section 501(c)(7).

Your letter of ██████████ accompanying your application for exemption under section 501(c)(7) states again that your purpose is to encourage sponsors to do business with other members/sponsors to provide a networking between and among businesses. In this letter you state that the trade shows are not advertised publicly, although Schedule D of the accompanying application states that the Trade Club Nights are open to the public and advertised on radio, TV and in the newspaper. This application emphasizes the fact that Trade Club Nights include dinner and entertainment.

Section 501(c)(6) of the Internal Revenue Code provides exemption for:

"Business leagues, chambers of commerce,...not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(7) Clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that, for an organization to be exempt, its activities must be:

"...directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons..."

Section 1.501(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. ***"

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Revenue Ruling 58-224, 1958-1 C.B. 242 states that an organization which operates a trade show as its sole or principal activity primarily for the purpose of rendering particular services to individual persons is not entitled to exemption from Federal income tax as an organization described as a business league in section 501(c)(6).

Revenue Ruling 59-391, 1959-2 C.B. 151 covers an organization composed of individuals, firms, associations and corporations, each representing a different trade. It was created for the purpose of exchanging information on business prospects and has no common business interest other than a desire to increase sales of members, and does not qualify for exemption under section 501(c)(6) of the Code.

Revenue Ruling 65-14 states that an organization formed to promote the tourist industry in its area and whose principal activity is the publication of a yearbook consisting largely of paid advertisements for its members is not entitled to exemption from Federal income tax under section 501(c)(6) of the code. The activity is considered the performance of particular services for the individuals, rather than an activity aimed at the improvement of general business conditions.

On the basis of the information submitted, we have concluded that you do not qualify for exemption under section 501(c)(6) or 501(c)(7). Since your purpose is to promote the business community, and to conduct Trade Club Nights at which businesses and professionals promote their products and/or services, you are not organized for pleasure, recreation, and other nonprofitable purposes. This is applicable whether or not you sell tickets to the general public, and whether the Trade Nights are for members only or not. It is a for profit purpose rather than a recreational purpose. As you state, [REDACTED] provides an atmosphere where [REDACTED] area business men and women can become better acquainted and meet with potential customers while enjoying a pleasant and entertaining evening. This is not a 501(c)(7) purpose.

Also, since your purpose is to promote the business interests of the members, you do not meet the requirements of section 501(c)(6) that the activities be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. Your primary purpose is for sponsors to meet potential customers, which is exactly opposite to the 501(c)(6) requirements. Your primary source of income is from sponsors who are promoting their products at your TRADE CLUB Nights.

Although Revenue Ruling 58-224 covers a trade show with actual sales, it concludes that the activity substantially serves the exhibitors and retailers as a convenience and economy in the conduct of business. Like this organization, you are providing a service for individuals as distinguished from the improvement of business conditions in general.

u do not require that each member represent a different business like
ation in Revenue Ruling 59-391, like that organization, you have no
ness interest other than the mutual desire to increase business.
ties are not directed to the improvement of business conditions of
lines of business, but rather to the promotion of the private
the members and sponsors.

organization formed to promote the tourist industry in Revenue Ruling
primary purpose is to provide a service for the members and sponsors
them to have personal contacts and to show and/or tell about their
services. This is considered the performance of particular services
members and sponsors, rather than an activity aimed at the improvement
business conditions.

, it is held that you are not entitled to exemption from Federal
as an organization described in section 501(c)(6) or 501(c)(7), or
section of the Code, and you are required to file Federal income tax
Form 1120.

not agree with these conclusions, you may, within 30 days from the
is letter, file in duplicate a brief of the facts, law, and argument
ly sets forth your position. If you desire an oral discussion of the
ase indicate this in your protest. The enclosed Publication 892 gives
ns for filing a protest.

not file a protest with this office within 30 days of the date of this
letter. this proposed determination will become final.

ee with these conclusions or do not wish to file a written protest,
n and return Form 6018 in the enclosed self-addressed envelope as soon
e.

e any further questions, please contact the person whose name and
number are shown at the beginning of this letter.

Sincerely,

District Director

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